

## Auditor's Report

**Cherif Mohamed Hammouda**

Chartered Accountant

Member of RSM International



To the shareholders of Medequip for Trading and Contracting, S.A.E.

We have audited the financial statements of Medequip for Trading and Contracting, S.A.E. which comprise the balance sheets as at June 30, 1999 and the related statement of income for the six-month period then ended. These financial statements are the responsibility of the company's management. It is our responsibility to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Such standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the position of Medequip for Trading and Contracting, S.A.E. as at June 30, 1999 and the results of its operations for the six-month period then ended in conformity with Egyptian Accounting Standards and comply with applicable Egyptian laws and regulations.

We obtained all data and explanations which we deemed necessary for our audit. Our audit provides us with reasonable assurance that during the six-month period ended June 30, 1999, the company's accounting records were maintained as required by law and the statute of the company and are in agreement with the accompanying financial statements.

Cherif Hammouda

FESAA-FIFA-FEST  
R.A.A. 14260

September 9, 1999

**MEDEQUIP FOR TRADING AND CONTRACTING, S.A.E.****FINANCIAL POSITION  
as at June 30, 1999**

	Notes	30-6-99 U.S.\$	30-6-99 L.E.	31-12-98 L.E.	30-6-98 L.E.
<b>Assets</b>					
<b>Current Assets</b>					
Inventory .....	(2C,3)	32,885,465	111,810,581	68,862,103	60,115,762
Work in Progress .....	(4)	38,081,391	129,476,730	67,763,280	56,347,795
Accounts Receivables (Net) .....	(5)	25,525,817	86,787,778	27,215,327	22,792,152
Lease Receivables .....	(6)	4,750,661	16,152,247	15,021,392	13,632,914
Debtors — Short Term Balances .....	(7)	12,665,324	43,062,101	23,666,648	20,485,795
Advance Payments to Suppliers .....		11,873,339	40,369,354	26,648,971	24,807,608
Cash in Hand and at Banks .....	(8)	16,719,296	56,845,605	4,404,033	36,412,195
<b>Total Current Assets .....</b>		<b>142,501,293</b>	<b>484,504,396</b>	<b>233,581,754</b>	<b>234,594,221</b>
<b>Long Term Assets</b>					
Fixed Assets (Net) .....	(2B,9)	1,052,432	3,578,270	3,885,167	3,817,434
Deferred Expenses (Net) .....	(2D,10)	581,674	1,977,691	2,636,922	2,834,675
Investment in Marketable Securities .....	(11)	1,570,929	5,341,160	5,341,160	3,756,846
Lease Receivables .....		34,818,446	118,382,718	98,818,566	80,920,455
<b>Total Long Term Assets .....</b>		<b>38,023,481</b>	<b>129,279,839</b>	<b>110,681,816</b>	<b>91,329,410</b>
<b>Total Assets .....</b>		<b>180,524,774</b>	<b>613,784,235</b>	<b>344,263,570</b>	<b>325,923,631</b>
<b>Liabilities</b>					
<b>Current Liabilities</b>					
Due to Banks .....		9,288,414	31,580,608	9,357,010	6,639,990
Current Portion of Long Term Debt .....	(12)	12,955,244	44,047,830	36,448,677	31,811,884
Accounts Payable .....		2,641,324	8,980,504	9,370,309	13,572,072
Provisions .....	(13)	8,879,322	30,189,694	9,795,829	7,236,091
Creditors — Short Term Balances .....		1,061,926	3,610,549	9,463,432	13,591,829
<b>Total Current Liabilities .....</b>		<b>34,826,230</b>	<b>118,409,185</b>	<b>74,435,257</b>	<b>72,851,866</b>
<b>Long Term Liabilities</b>					
Due to Holding Company .....		66,044,853	224,552,500	—	—
Long Term Loans .....	(12)	30,210,730	102,716,484	145,794,703	133,016,079
<b>Total Long Term Liabilities .....</b>		<b>96,255,583</b>	<b>327,268,984</b>	<b>145,794,703</b>	<b>133,016,079</b>
<b>Shareholders' Equity</b>					
Issued and Paid-up Capital .....	(14)	29,411,765	100,000,000	100,000,000	100,000,000
Legal Reserve .....		353,436	1,201,681	1,201,681	865,713
Retained Earnings .....		6,715,273	22,831,929	22,831,929	4,187,563
Net Profit for The Period .....		12,962,487	44,072,456	—	15,002,410
<b>Total Shareholders' Equity .....</b>		<b>49,442,961</b>	<b>168,106,066</b>	<b>124,033,610</b>	<b>120,055,686</b>
<b>Total Liabilities and Shareholders Equity .....</b>		<b>180,524,774</b>	<b>613,784,235</b>	<b>344,263,570</b>	<b>325,923,631</b>

The accompanying notes are an integral part of the financial position.

The auditor's report is attached.

Notes: Solely for the convenience of the reader, the translation Egyptian pounds into U.S. Dollars has been made at the rate of U.S.\$1.00 = L.E.3.40

**MEDEQUIP FOR TRADING AND CONTRACTING, S.A.E.****INCOME STATEMENT**  
**for the period from January 1,1999 to June 30,1999**

	30-6-99 U.S.\$	30-6-99 L.E.	31-12-98 L.E.	30-6-98 L.E.
Net Sales .....	97,096,118	330,126,800	253,496,936	174,912,886
Cost of Goods Sold.....	(67,616,206)	(229,895,100)	(186,245,073)	(129,942,783)
Gross Profit.....	<u>29,479,912</u>	<u>100,231,700</u>	<u>67,251,863</u>	<u>44,970,103</u>
<b>ADD</b>				
Other Income.....	524,887	1,784,616	1,129,355	704,718
Credit Interest .....	189,713	645,025	—	—
Maintenance Revenue .....	1,270,961	4,321,268	2,179,905	1,656,728
	<u>31,465,473</u>	<u>106,982,609</u>	<u>70,561,123</u>	<u>47,331,549</u>
<b>Less</b>				
General and Administrative Expenses.....	(6,778,776)	(23,047,839)	(24,561,320)	(15,002,769)
Depreciation of Fixed Assets.....	(90,264)	(306,898)	(653,346)	—
Amortization of Deferred Expenses .....	(193,891)	(659,231)	(769,076)	—
Financing Expenses .....	(1,951,130)	(6,633,840)	(14,723,456)	(9,962,454)
Provision for Doubtful Account.....	(1,330,567)	(4,523,927)	(2,321,106)	(1,687,254)
Foreign Exchange Differences .....	(24,038)	(81,730)	(212,049)	(127,824)
Management Fees Due to Holding Company .....	(1,453,446)	(4,941,717)	—	—
Total Expenses.....	<u>(11,822,112)</u>	<u>(40,195,182)</u>	<u>(43,240,353)</u>	<u>(26,780,301)</u>
Net Profit for the Period before taxes.....	19,643,361	66,787,427	27,320,770	20,551,248
Income Tax provision .....	(6,680,874)	(22,714,971)	(7,474,723)	(5,548,837)
Net Profit for the Period after taxes .....	<u>12,962,487</u>	<u>44,072,456</u>	<u>19,846,047</u>	<u>15,002,410</u>

The accompanying notes are an integral part of the financial position.

The auditor's report is attached.

Note: Solely for the convenience of the reader, the translation Egyptian pounds into U.S. Dollars has been made at the rate of  
U.S.\$1.00 = L.E.3.40

**Medequip for Trading and Contracting, S.A.E.****NOTES TO THE FINANCIAL POSITION  
As at June 30, 1999****1 — The Company**

Medequip for Trading and Contracting S.A.E., ("Medequip") was incorporated on October 12, 1994 under law 159 of 1981. Medequip is principally involved in the following activities: (i) the sale of medical equipment and, (ii) the construction of medical facilities and related construction activities.

**2) Significant Accounting Policies**

The significant accounting policies adopted in the preparation of the financial statements are set out below.

**a) Basis of Preparation of Financial Statements**

The accounts are prepared on the basis of historical cost in accordance with Egyptian Accounting Standards.

**b) Fixed Assets**

Fixed Assets are stated at historical cost and are depreciated using the straight — line method based on their estimated useful lives. According to the following annual rates:

<b>Assets</b>	<b>Annual Rates</b>
Vehicles .....	12.50%
Electrical Equipment .....	12.50%
Furniture .....	6.00%
Office Equipment .....	12.50%
Telephone Switch Pager .....	12.5-25%
Tools and Fixtures .....	12.50%

**c) Inventory**

Inventory is stated at the lower of cost or net realizable value using the first-in-first-out method.

**d) Deferred Expenses (net)**

Deferred Expenses (net) represent Organization Costs incurred for the purpose of establishing Medequip.

These costs are amortized using the straight-line method over a five-year period (20 per cent.).

**3 — Inventory**

Inventory as of June 30, 1999 amounted to L.E 111,810,581 comprises the following:

	<b>30-6-99 L.E.</b>	<b>30-6-99 U.S.\$</b>
Spare Parts.....	23,731,744	6,979,925
Goods in Transit .....	8,616,311	2,534,209
Medical Equipment.....	24,125,372	7,095,698
Contracting Material .....	55,337,154	16,275,633
	<u>111,810,581</u>	<u>32,885,465</u>

**Medequip for Trading and Contracting, S.A.E.****4 — Work in Progress**

Work in Progress as of June 30, 1999 amounted to L.E.129,476,730 comprises the following:

	30-6-99 L.E.	30-6-99 U.S.\$
El Salam Hospital.....	9,627,788	2,831,702
Luxor Hospital.....	3,119,712	917,562
Domyat Hospital.....	5,784,466	1,701,314
62 Bed Projects.....	8,709,196	2,561,528
El Bagour Hospital.....	5,979,448	1,758,661
El Ghanayem Hospital.....	5,069,532	1,491,039
6th of October Hospital.....	25,737,626	7,569,890
Swiss Hotel — Sharm El Shekh.....	55,504,880	16,324,965
Others.....	9,944,082	2,924,730
	<u>129,476,730</u>	<u>38,081,391</u>

**5 — Accounts Receivables**

Accounts Receivables as of June 30, 1999 amounted in L.E.86,787,778 comprise the following:

	30-6-99 L.E.	30-6-99 U.S.\$
Ministry of Health.....	15,844,502	4,660,148
Ministry of Defence.....	11,839,158	3,482,105
Private Medical Centers.....	36,110,267	10,620,667
Several Hospitals.....	29,838,884	8,776,142
	<u>93,632,811</u>	<u>27,539,062</u>
Less		
Provision for Doubtful Account.....	(6,845,033)	(2,013,245)
	<u>86,787,778</u>	<u>25,525,817</u>

**6 — Lease Receivables**

Lease Receivables represent leasing activities for supplying doctor's private practices and medical centers with medical equipment and related spare parts. Average lease terms are five years.

**7 — Debtors — Short Term Balances**

Debtors — Short Term Balances as of June 30, 1999 amounted in L.E.43,062,101 comprises the following:

	30-6-99 L.E.	30-6-99 U.S.\$
Sales Tax.....	6,834,934	2,010,275
Withholding Tax.....	3,560,099	1,047,088
Deposits With Others.....	2,473,790	727,585
Letters of Guarantees.....	5,000,000	1,470,588
Letters of Credit.....	13,240,951	3,894,397
Others.....	9,902,554	2,912,516
	<u>43,062,101</u>	<u>12,665,324</u>

**Medequip for Trading and Contracting, S.A.E.****8 — Cash in Hand and at Banks**

Cash in Hand and at Banks as of June 30, 1999 amounted in L.E.56,845,605 comprises the following:

	30-6-99 L.E.	30-6-99 U.S.\$
Misr America International Bank — Current Account — L.E. ....	2,173,210	639,179
Int. Islamic Bank .....	339,553	99,869
Arab African Bank .....	1,485,150	436,809
National Bank of Egypt.....	1,053,611	309,886
Other Banks.....	25,661	7,547
Time Deposits.....	50,819,473	14,946,904
Cash in Hand .....	948,947	279,102
	<u>56,845,605</u>	<u>16,719,296</u>

**9 — Fixed Assets (Net)**

Fixed Assets as of June 30, 1999 amounted to L.E.3,578,270 comprise the following:

	Cost 30-6-99 L.E.	Accumulated Depreciation L.E.	Net Value as at 30-06-99 L.E.	Net Value as at 30-06-99 U.S.\$
Vehicles .....	3,031,258	1,192,488	1,838,770	540,815
Electrical Equipment .....	669,737	197,741	471,996	138,822
Furniture .....	1,403,860	358,911	1,044,949	307,338
Office Equipment .....	116,391	33,870	82,521	24,271
Telephone Switch Pager .....	115,124	35,482	79,642	23,424
Tools and Fixtures .....	71,079	10,687	60,392	17,762
	<u>5,407,449</u>	<u>1,829,179</u>	<u>3,578,270</u>	<u>1,052,432</u>

**10 — Deferred Expenses (Net)**

Deferred Expenses (Net) as of June 30, 1999 represent the following:

	30-6-99 L.E.	30-6-99 U.S.\$
Organization Costs (Net) .....	1,977,691	581,674
	<u>1,977,691</u>	<u>581,674</u>

**11 — Investment in Marketable Securities:**

Investment in Marketable Securities as of June 30, 1999 amounted to L.E.5,341,160 comprises the following:

	percentage of participation %	shares value L.E.	number of shares	amount in as at 30-6-99 L.E.	amount in as at 30-6-99 U.S.\$
Rego Company S.A.E.....		100	30,000	3,000,000	882,353
Tanta Scan S.A.E.....	10.80%	10	54,116	541,160	159,164
Incolase Leasing Co. ....	9.00%	10	180,000	1,800,000	529,412
			<u>264,116</u>	<u>5,341,160</u>	<u>1,570,929</u>

**12 — Long Term Loans**

Long Term Loans as of June 30, 1999 amounted in L.E.102,716,484 and the current portion of the above mentioned Long-Term Debt has reached L.E.44,047,830 and is included in the Current Liabilities in the financial Position.

**Medequip for Trading and Contracting, S.A.E.****13 — Provisions**

Provisions as of June 30, 1999 amounted in L.E. 30,189,694 comprise the following:

	30/06/99 L.E.	30/06/99 U.S.\$
Provision for Income Taxes.....	30,189,694	8,879,322
	<u>30,189,694</u>	<u>8,879,322</u>

**14 — Capital**

The paid-up capital amounts to L.E. 100,000,000 Divided into 1,000,000 shares of L.E. 100 per share as follows:

Shareholder's Name	Percentage of participation %	Number of Shares	Amount as at 30-6-99 L.E.	Amount as at 30-6-99 U.S.\$
Holding Company for Financial Investments (Lakah Group) S.A.E. ....	97.800%	978,000	97,800,000	28,764,705
Mr. Ramy Lakah.....	0.065%	650	65,000	19,117
Mr. Michel Lakah.....	0.040%	404	40,400	11,882
Mr. Ramy Mostafa.....	0.330%	3,300	330,000	97,059
Mr. Samy Toutouny.....	0.626%	6,260	626,000	184,117
Mr. Ramy Aziz.....	0.004%	36	3,600	1,059
Mr. Medhat Sobhy.....	0.813%	8,125	812,500	238,970
Mr. Farouk Abdel Samei.....	0.005%	50	5,000	1,471
Mr. Rafik Shehata.....	0.280%	2,800	280,000	82,353
Mr. Sherif Sharrawy.....	0.005%	50	5,000	1,471
Mrs. Hala El Fouly.....	0.005%	50	5,000	1,471
Mr. Hany Semon.....	0.003%	25	2,500	735
Mrs. Mona A. Gawad.....	0.005%	50	5,000	1,471
Mr. Wageh Shokry Younan.....	0.005%	50	5,000	1,471
Mr. Amgad Zarif.....	0.005%	50	5,000	1,471
Mr. George Shawky Farag.....	0.005%	50	5,000	1,471
Mr. Amir Youhana.....	0.005%	50	5,000	1,471
	<u>100%</u>	<u>1,000,000</u>	<u>100,000,000</u>	<u>29,411,765</u>

## Auditor's Report

**Cherif Mohamed Hammouda**

Chartered Accountant  
Member of RSM International



To the shareholders of Trading Medical Systems Egypt, S.A.E.

We have audited the financial statements of Trading Medical Systems Egypt, S.A.E. which comprise the balance sheets as at June 30, 1999 and the related statement of income for the six-month period then ended. These financial statements are the responsibility of the company's management. It is our responsibility to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Such standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the position of Trading Medical Systems Egypt, S.A.E. as at June 30, 1999 and the results of its operations for the six-month period then ended in conformity with Egyptian Accounting Standards and comply with applicable Egyptian laws and regulations.

We obtained all data and explanations which we deemed necessary for our audit. Our audit provides us with reasonable assurance that during the six-month period ended June 30, 1999, the company's accounting records were maintained as required by law and the statute of the company and are in agreement with the accompanying financial statements.

Cherif Hammouda

FESAA-FIFA-FEST  
R.A.A. 14260

September 9, 1999



## TRADING MEDICAL SYSTEM EGYPT, S.A.E.

FINANCIAL POSITION  
as of June 30, 1999

	Notes	30-6-99 U.S.\$	30-6-99 L.E.	31-12-98 L.E.	30-6-98 L.E.
<b>Assets</b>					
<b>Current Assets</b>					
Inventory .....	(2D,3)	13,737,749	46,708,346	30,872,182	29,957,734
Accounts Receivables (Net) .....	(4)	3,663,022	12,454,276	6,245,694	11,258,077
Lease Receivables .....		3,543,282	12,047,160	12,683,000	10,098,075
Other Debit Balances .....	(5)	7,915,854	26,913,903	25,138,846	18,277,888
Letters of Guarantee (Cash Margin) .....		1,624,004	5,521,614	3,159,400	2,982,202
Cash in Hand and at Banks .....	(6)	4,186,360	14,233,624	2,740,000	1,932,371
Total Current Assets .....		<u>34,670,271</u>	<u>117,878,923</u>	<u>80,839,121</u>	<u>74,506,347</u>
<b>Long Term Assets</b>					
Fixed Assets (Net) .....	(2C,7)	1,001,872	3,406,363	3,807,000	3,599,369
Lease Receivables .....	(8)	19,025,444	64,686,511	68,821,754	69,792,168
Total Long Term Assets .....		<u>20,027,316</u>	<u>68,092,874</u>	<u>72,628,754</u>	<u>73,391,537</u>
Total Assets .....		<u>54,697,587</u>	<u>185,971,797</u>	<u>153,467,875</u>	<u>147,897,884</u>
<b>Liabilities</b>					
<b>Current Liabilities</b>					
Due to Banks .....		11,912,727	40,503,272	44,819,950	38,430,340
Creditors Short-Term .....	(9)	1,576,512	5,360,140	13,093,194	5,360,200
Accounts Payable .....	(10)	1,283,300	4,363,220	3,122,392	6,212,607
Provisions .....	(11)	4,302,995	14,630,182	9,349,587	4,462,089
Total Current Liabilities .....		<u>19,075,534</u>	<u>64,856,814</u>	<u>70,385,123</u>	<u>54,465,236</u>
<b>Long Term Liabilities</b>					
Long Term Loans .....		<u>11,437,742</u>	<u>38,888,322</u>	<u>16,409,497</u>	<u>29,423,538</u>
Total Long Term Liabilities .....		<u>11,437,742</u>	<u>38,888,322</u>	<u>16,409,497</u>	<u>29,423,538</u>
<b>Shareholders' Equity</b>					
Authorized Capital (L.E.50,000,000)					
Issued and Paid-Up Capital .....	(12)	14,705,882	50,000,000	50,000,000	50,000,000
Legal Reserve .....		404,706	1,376,000	1,376,000	427,467
Retained Earnings .....		4,499,192	15,297,255	15,297,255	3,941,870
Net Profit for the Period .....		4,574,531	15,553,406	—	9,639,773
Total Shareholder's Equity .....		<u>24,184,311</u>	<u>82,226,661</u>	<u>66,673,255</u>	<u>64,009,110</u>
Total Liabilities and Shareholders' Equity .....		<u>54,697,587</u>	<u>185,971,797</u>	<u>153,467,875</u>	<u>147,897,884</u>

The accompanying notes are an integral part of the financial position.

The auditor's report is attached.

Note: Solely for the convenience of the reader, the translation Egyptian pounds into U.S. Dollars has been made at the rate of U.S.\$1.00 = L.E.3.40.

**TRADING MEDICAL SYSTEM EGYPT, S.A.E.****INCOME STATEMENT**  
**for the period from January 1, 1999 to June 30, 1999**

	30.6.99 U.S.\$	30.6.99 L.E.	31.12.98 L.E.	30.6.98 L.E.
Sales .....	36,605,888	124,460,020	138,830,830	99,958,198
Cost of Sales .....	(26,078,190)	(88,665,847)	(103,529,000)	(76,818,518)
Gross Profit .....	<u>10,527,698</u>	<u>35,794,173</u>	<u>35,301,830</u>	<u>23,139,680</u>
<b>Less</b>				
General and Administrative Expenses .....	2,500,472	8,501,604	8,981,407	5,568,472
Financing Expenses .....	970,453	3,299,541	5,951,000	3,213,540
Provision for Doubtful Debts .....	295,112	1,003,381	1,755,009	1,368,907
Depreciation of Fixed Assets .....	117,834	400,637	469,726	255,805
Total Expenses .....	<u>3,883,871</u>	<u>13,205,163</u>	<u>17,157,142</u>	<u>10,406,724</u>
Net Profit For the Period before Taxes .....	<u>6,643,827</u>	<u>22,589,010</u>	<u>18,144,688</u>	<u>12,732,956</u>
Income Tax Provision .....	(2,069,296)	(7,035,604)	(5,620,770)	(3,093,183)
Net Profit For the Period after Taxes .....	<u>4,574,531</u>	<u>15,553,406</u>	<u>12,523,918</u>	<u>9,639,773</u>

*The auditor's report is attached.*

*Note: Solely for the convenience of the reader, the translation of Egyptian pounds into U.S. Dollars has been made at the rate of U.S.\$1.00 = L.E.3.40.*

**Trading Medical System Egypt, S.A.E.****NOTES TO THE FINANCIAL POSITION  
As of June 30, 1999****1 — The Company**

Trading Medical Systems Egypt S.A.E. "TMSE" was established on December 17, 1994 under the Law No. 159 of 1981. TMSE is involved in marketing, importing, re-exporting, distributing, installing and servicing sophisticated medical imaging equipment.

**2 — Significant Accounting Policies**

The significant accounting policies adopted in the preparation of the financial statements are set out below.

**a) Basis of Preparation of Financial Statements**

The accounts are prepared on the basis of historical cost in accordance with Egyptian Accounting Standards.

**b) Foreign currency**

The company maintains its accounts in Egyptian pounds. Transactions denominated in foreign currencies are translated to Egyptian pounds using the prevailing free market rates at the transaction date.

Monetary assets and liabilities denominated in foreign currencies are translated to Egyptian pounds using the exchange rates prevailing as at the year end. Translation differences are included in the Income Statement.

**c) Fixed Assets**

Fixed Assets are stated at historical cost and are depreciated using the straight-line method over their expected useful lives, according to the following annual rates.

<b>Fixed Assets</b>	<b>Annual Rates</b>
Vehicles .....	25%
Electrical Equipment .....	12.5%
Furniture .....	6-20%
Iron Safe.....	12.5%
Telephone Switch and Pager .....	12.5%
Tools and Fixtures .....	12.5%

**d) Inventory**

Inventory are stated at the lower of cost or net realizable value using the first-in first-out method.

**3 — Inventory**

Inventory as of June 30, 1999 amounted to L.E.46,708,346 represents as follows:

	<b>30-6-99 L E.</b>	<b>30-6-99 U.S.\$</b>
Goods in Transit .....	8,125,401	2,389,824
Spare Parts.....	20,251,369	5,956,285
Medical Equipment.....	18,331,576	5,391,640
	<u>46,708,346</u>	<u>13,737,749</u>

**Trading Medical System Egypt, S.A.E.****4 — Accounts Receivables (Net)**

Accounts Receivables (Net) as of June 30, 1999 amounted to L.E.12,454,276 represent as follows:

	30-6-99 L.E.	30-6-99 U.S.\$
Al Agouza Hospital .....	3,505,698	1,031,088
El Suez Hospital .....	4,500,645	1,323,719
Alfa Scan .....	4,099,971	1,205,874
Ministry of Defense .....	3,106,352	913,633
	<u>15,212,666</u>	<u>4,474,314</u>
Less		
Provision for Doubtful Account .....	(2,758,390)	(811,291)
	<u>12,454,276</u>	<u>3,663,022</u>

**5 — Other Debit Balances**

Other Debit Balances as of June 30, 1999 amounted to L.E.26,913,903 represent as follows:

	30-6-99 L.E.	30-6-99 U.S.\$
Tax Authority .....	13,237,137	3,893,275
Deposits with Others .....	4,113,652	1,209,898
Prepaid Expenses .....	6,174,865	1,816,137
Accrued Revenue .....	3,388,249	996,544
	<u>26,913,903</u>	<u>7,915,854</u>

**6 — Cash in Hand and at Banks**

Cash in Hand and at Banks as of June 30, 1999 amounted to L.E.14,233,624 represents as follows:

	30-6-99 L.E.	30-6-99 U.S.\$
Banks — Current Accounts .....	14,208,624	4,179,007
Cash in Hand .....	25,000	7,353
	<u>14,233,624</u>	<u>4,186,360</u>

**7 — Fixed Assets**

Fixed Assets as of June 30, 1999 amounted to L.E.3,406,363 represent as follows:

	Cost as of 30-6-99 L.E.	Accumulated depreciation as of 30-6-99 L.E.	Net Value as of 30-6-99 L.E.	Net Value as of 30-6-99 U.S.\$
Vehicles .....	3,548,816	1,033,557	2,515,258	739,782
Electrical Equipment .....	296,038	82,302	213,735	62,863
Furniture .....	1,105,375	709,637	395,738	116,394
Iron Safe .....	17,247	5,180	12,066	3,549
Telephone Switch & Pager .....	312,681	87,386	225,295	66,263
Fire Equipment .....	4,076	1,090	2,987	878
Tools & Fixtures .....	57,600	16,316	41,284	12,142
	<u>5,341,832</u>	<u>1,935,469</u>	<u>3,406,363</u>	<u>1,001,871</u>

**Trading Medical System Egypt, S.A.E.****8 — Lease Receivables**

TMSE (the "Lessor") entered into Lease contracts through which it leases certain equipment to its clients ("Lessees"). The leased equipment title passes to the Lessee at the end of the lease term (almost five years). Lease receivables represents the total lease payments to be received.

**9 — Creditors Short Term**

Creditors Short Term as of June 30, 1999 amounted to L.E.5,360,140 represented as follows:

	30-6-99 L.E.	30-6-99 U.S.\$
Customs Clearance .....	452,685	133,143
Accrued Expenses .....	560,251	164,780
Notes Payable .....	746,606	219,590
Customers — Advance Payments .....	3,600,598	1,058,999
	<u>5,360,140</u>	<u>1,576,512</u>

**10 — Accounts payable**

Accounts payable as of June 30, 1999 amounted to L.E.4,363,220 represented as follows:

	30-6-99 L.E.	30-6-99 U.S.\$
Toshiba — Japan .....	4,363,220	1,283,300
	<u>4,363,220</u>	<u>1,283,300</u>

**11 — Provisions**

Provisions as of June 30, 1999 amounted to L.E.14,630,182 represent as follows:

	30-6-99 L.E.	30-6-99 U.S.\$
Income Tax Provision .....	14,630,182	4,302,995
	<u>14,630,182</u>	<u>4,302,995</u>

**12 — Capital**

The Authorized Capital amounts to L.E.50,000,000 and the Issued and Subscribed Capital amount to L.E.50,000,000 divided into 500,000 shares of L.E.100 per share.

Shareholder's Name	Percentage of Participation	Number of shares	Amount 30-6-99 L.E.	Amount 30-6-99 U.S.\$
Holding Company For Financial Investments (Lakah Group) S.A.E. ....	97.60%	488,000	48,800,000	14,352,941
Mr. Ramy Lakah .....	0.35%	1,750	175,000	51,470
Mr. Michel Lakah .....	0.04%	215	21,500	6,323
Mr. Ramy Mostapha .....	0.57%	2,825	282,500	83,088
Mr. Samy Toutoungy .....	0.69%	3,450	345,000	101,470
Mr. Rafik Chehata .....	0.18%	900	90,000	26,470
Mr. Medhat Sobhy .....	0.51%	2,560	256,000	75,294
Mr. Farouk Abdel Samei .....	0.01%	50	5,000	1,471
Mr. Adel Mohamed Kamal El Deen El Shorbagy .....	0.01%	50	5,000	1,471
Mr. Hani Youssef Habeeb Samaan .....	0.01%	50	5,000	1,471
Mr. Ashraf Adly Gad Allah Abou Zeid .....	0.01%	50	5,000	1,471
Mr. Ehab Mohamed El Fouly .....	0.01%	50	5,000	1,471
Mr. Wael Hasan Hasan Zaghloul .....	0.01%	50	5,000	1,471
	<u>100.00%</u>	<u>500,000</u>	<u>50,000,000</u>	<u>14,705,882</u>

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## Auditor's Report

**Cherif Mohamed Hammouda**

Chartered Accountant

Member of RSM International



To the shareholders of Arab Steel Factory, S.A.E.

We have audited the financial statements of Arab Steel Factory, S.A.E. which comprise the balance sheet as at June 30, 1999 and the related statement of income for the six-month period then ended. These financial statements are the responsibility of the company's management. It is our responsibility to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Such standards require that we plan and perform the audit to obtain reasonable assurances as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the position of Arab Steel Factory, S.A.E., as at June 30, 1999 and the results of its operations for the six-month period then ended in conformity with Egyptian Accounting Standards and comply with applicable Egyptian laws and regulations.

We obtained all data and explanations which we deemed necessary for our audit. Our audit provides us with reasonable assurance that during the six-month period ended June 30, 1999, the company's accounting records were maintained as required by law and the statute of the company and are in agreement with the accompanying financial statements.

Cherif Hammouda

FESAA-FIFA-FEST  
R.A.A. 14260

9 September, 1999

## ARAB STEEL FACTORY, S.A.E.

FINANCIAL POSITION  
as of June 30, 1999

	Notes	30-6-99 U.S.\$	30-6-99 L.E.	31-12-98 L.E.	30-6-98 L.E.
<b>Assets</b>					
<b>Current Assets</b>					
Inventory.....	(2d,3)	26,412,009	89,800,830	77,309,116	53,032,334
Accounts Receivables.....	4	15,204,213	51,694,323	38,994,632	50,326,748
Debtors — Short Term Balances.....	5	14,726,910	50,071,493	60,551,110	24,065,412
Letters of Credit.....		964,706	3,280,000	—	—
Advance Payments to Suppliers.....	6	2,615,535	8,892,819	6,983,861	1,978,346
Time Deposits.....		317,780	1,080,453	—	—
Cheques under Collection.....	7	5,268,617	17,913,298	—	—
Cash in Hand and at Banks.....	8	213,878	727,186	2,264,423	1,935,647
Total Current Assets.....		<u>65,723,648</u>	<u>223,460,402</u>	<u>186,103,143</u>	<u>131,338,487</u>
<b>Long Term Assets</b>					
Fixed Assets (Net).....	(2c,9)	67,283,936	228,765,383	209,225,914	212,515,421
Deferred Expenses (Net).....	(2f,10)	6,170,659	20,980,242	22,689,747	22,165,505
Long Term Investments.....	11	36,470,588	124,000,000	124,000,000	124,000,000
Projects under Construction.....		—	—	18,219,188	12,584,614
Total Long Term Assets.....		<u>109,925,184</u>	<u>373,745,625</u>	<u>374,134,849</u>	<u>371,265,540</u>
Total Assets.....		<u>175,648,831</u>	<u>597,206,027</u>	<u>560,237,992</u>	<u>502,604,027</u>
<b>Liabilities</b>					
<b>Current Liabilities</b>					
Accounts Payable.....		—	—	—	72,549,406
Due to Banks.....		6,436,349	21,883,585	15,379,832	—
Provisions.....		174,568	593,530	593,530	4,789,521
Creditors — Short Term Balances.....		441,254	1,500,262	6,000,898	—
Other Creditors.....		253,024	860,280	1,676,126	—
Bonds Interest Accrual.....	12	4,227,941	14,375,000	—	—
Total Current Liabilities.....		<u>11,533,134</u>	<u>39,212,657</u>	<u>23,650,386</u>	<u>77,338,927</u>
<b>Long Term Liabilities</b>					
Long Term Loans.....		—	—	4,667,603	149,846,324
Bonds.....	14	73,529,412	250,000,000	250,000,000	—
Creditors — Long Term Balances.....		—	—	2,819,015	3,845,152
Total Long Term Liabilities.....		<u>73,529,412</u>	<u>250,000,000</u>	<u>257,486,618</u>	<u>153,691,476</u>
<b>Shareholders' Equity</b>					
Issued and Paid-Up Capital.....	13	73,529,412	250,000,000	250,000,000	250,000,000
Legal Reserve.....		427,956	1,455,049	1,455,049	—
Retained Earnings.....		8,131,159	27,645,939	—	—
Net Profit For The Period.....		8,497,759	28,892,382	27,645,939	21,573,624
Total Shareholders' Equity.....		<u>90,586,285</u>	<u>307,993,370</u>	<u>279,100,988</u>	<u>271,573,624</u>
Total Liabilities.....		<u>175,648,831</u>	<u>597,206,027</u>	<u>560,237,992</u>	<u>502,604,027</u>

The accompanying notes are an integral part of the financial position.

The auditor's report is attached.

Note: Solely for the convenience of the reader, the translation Egyptian pounds into U.S. Dollars has been made at the rate of U.S.\$1.00 = L.E.3.40

**ARAB STEEL FACTORY, S.A.E.****INCOME STATEMENT  
for the period from January 1, 1999 to June 30, 1999**

	Note	30-6-99 U.S.\$	30-6-99 L.E.	31-12-98 L.E.	30-6-98 L.E.
Net Sales .....		29,060,486	98,805,653	186,773,448	107,495,590
Cost of Goods Sold .....		(17,606,298)	(59,861,412)	(108,383,061)	(65,572,310)
Less					
Fixed Assets Depreciation .....		(2,578,077)	(8,765,463)	(13,786,392)	(6,893,196)
Pre-production Tests Amortization .....		(95,195)	(323,662)	(647,324)	(315,031)
Gross Profit .....		<u>8,780,916</u>	<u>29,855,116</u>	<u>63,956,671</u>	<u>34,715,053</u>
Less					
General and Administrative Expenses .....		464,968	1,580,891	2,384,457	1,397,681
Financing Expenses .....		371,545	1,263,254	28,548,813	11,119,787
Fixed Assets Depreciation .....		150,956	513,249	1,025,977	354,960
Pre-opening Expenses Amortization .....		407,600	1,385,839	2,771,679	537,013
Miscellaneous Revenue .....		(86,384)	(293,707)	(587,414)	(324,965)
Foreign Exchange Differences .....		15,149	51,506	118,640	56,953
Bonds Interest .....	12	<u>4,227,941</u>	<u>14,375,000</u>	—	—
Total Expenses .....		<u>5,551,775</u>	<u>18,876,032</u>	<u>34,262,152</u>	<u>13,141,429</u>
ADD:					
Extraordinary Gain .....	10	<u>5,268,617</u>	<u>17,913,298</u>	—	—
Net Profit For the period before taxes .....		<u>8,497,758</u>	<u>28,892,382</u>	<u>29,694,519</u>	<u>21,573,624</u>
Taxes Provision .....		—	—	(593,530)	—
Net Profit for the Period After Taxes .....		<u>8,497,758</u>	<u>28,892,382</u>	<u>29,100,989</u>	<u>21,573,624</u>

The accompanying notes are an integral part of the financial position.

The auditor's report is attached.

Note: Solely for the convenience of the reader, the translation Egyptian pounds into U.S. Dollars has been made at the rate of U.S.\$1.00 =



**Arab Steel Factory, S.A.E.****NOTES TO THE FINANCIAL POSITION****As of June 30, 1999****1) The Company**

Arab Steel Factory, S.A.E. ("Arab Steel") was incorporated in Egypt in December 1994 under the law No. 159 of 1981. Arab Steel is a leading manufacturer in Egypt of steel billets for sale in the Egyptian market. Billet is the raw material required for the manufacture of steel rebar, angels and beams.

**2) Significant Accounting policies**

The significant accounting policies adopted in the preparation of the financial position are set out below.

**a) Accounting basis**

The accounts are made on the basis of the historical cost in accordance with the Egyptian Accounting standards.

**b) Foreign Currency Transactions**

Arab Steel maintains its accounts in Egyptian currency, and it records its foreign currency transactions on the basis of exchange rates at the time of transaction itself. Re-valuation of the accounts is conducted at year-end using the prevailing exchange rates on December 31, 1998.

**c) Fixed Assets**

Fixed Assets are recorded at their historical cost, and are depreciated using the straight-line method for their estimated productive lives according to the following ratios:

<b>Fixed Assets</b>	<b>Annual Rates</b>
Buildings.....	2%
Machinery and Equipment.....	10%
Fixtures .....	20%
Office Furniture and Equipment .....	15%
Vehicles .....	20%
Back House.....	20%

**d) Inventory**

Raw material inventory is priced at cost on a weighted average basis, and finished goods inventories are priced at cost, including raw materials, direct labor and a share of indirect expenses determined on the basis of the normal activity.

**e) Recording Pre-operating Revenues**

The Pre-operating net Revenue is expressed in the amounts due from the goods and services that Arab Steel provides through the experiment period activity on the basis of discounted prices in compliance with the product's life time deducting the commercial discount and the sales tax.

**f) Deferred Expenses**

Pre-opening Expenses amortized over 7 years.

**3) Inventory**

Inventory comprises the following:

	<b>30-6-99 L.E.</b>	<b>30-6-99 U.S.\$</b>
Raw Materials and Scrap.....	60,948,156	17,925,928
Spare Parts Inventory.....	2,967,926	872,820
Goods in Transit.....	12,501,627	3,676,949
Finished Goods .....	13,383,121	3,936,212
	<u>89,800,830</u>	<u>26,411,909</u>

**Arab Steel Factory, S.A.E.****4) Accounts Receivables**

Accounts receivable comprise the following:

	30-6-99 L.E.	30-6-99 U.S.\$
Suez for Iron Production.....	28,565,753	8,401,692
Counter Steel Co. ....	18,939,022	5,570,301
Others .....	4,189,548	1,232,220
	<u>51,694,323</u>	<u>15,204,213</u>

**5) Debtors — Short Term Balances**

Debtors — Short Term Balances comprise the following:

	30-6-99 L.E.	30-6-99 U.S.\$
Advance Payments to Purchase Fixed Assets .....	5,820,972	1,712,051
Tax Authority .....	23,325,467	6,860,431
Prepaid Expenses.....	2,554,668	751,373
Deposits with Others .....	7,752,178	2,280,052
Customs Clearance.....	1,724,578	507,229
Others .....	8,893,630	2,615,774
	<u>50,071,493</u>	<u>14,726,910</u>

**6) Advance payments to suppliers**

Advance payments to suppliers comprise the following:

	30-6-99 L.E.	30-6-99 U.S.\$
Engineering Company for Pumps .....	824,615	242,534
Elnasr Trading Company.....	1,051,698	309,323
Cultex Company.....	2,254,789	663,173
Merit for Trading and Commerce .....	2,936,249	863,603
Others .....	1,825,468	536,902
	<u>8,892,819</u>	<u>2,615,535</u>

**7) Cheques under collection**

Cheques under collection as of June 30, 1999 amounted to L.E.17,913,298, represent the amounts due from Allied Investors Insurance Company in respect of loss of profit following machinery breakdown.

**8) Cash in hand and at banks**

Cash in Hands and at banks comprises the following:

	30-6-99 L.E.	30-6-99 U.S.\$
Banks — Current Accounts .....	717,006	210,884
Cash in Hand.....	10,180	2,994
	<u>727,186</u>	<u>213,878</u>

**Arab Steel Factory, S.A.E.****9) Fixed Assets**

Fixed Assets balance reached the amount of L.E. 228,765,383 represents as follows:

	Cost as of 30-6-99	Accumulated Depreciation as of 30-6-99	Net Value as of 30-6-99 L.E.	Net Value as of 30-6-99 U.S.\$
Land.....	48,997,530	0	48,997,530	14,411,038
Buildings and Constructions.....	14,273,250	190,311	14,082,939	4,142,041
Machinery and Equipments.....	166,879,261	22,406,580	144,472,681	42,491,965
Office Equipment and Fixtures.....	859,044	96,983	762,061	224,136
Vehicles.....	4,821,912	1,132,111	3,689,801	1,085,235
Back House.....	18,725,277	1,964,906	16,760,371	4,929,521
	<u>254,556,274</u>	<u>25,790,891</u>	<u>228,765,383</u>	<u>67,283,936</u>

**10) Deferred Expenses (Net)**

Deferred Expenses (Net) comprise the following:

	30-6-99 L.E.	30-6-99 U.S.\$
Pre — Opening Expenses (Net) .....	20,980,242	6,170,600
	<u>20,980,242</u>	<u>6,170,600</u>

**11) Long Term Investments**

Long Term Investments amounted to L.E. 124,000,000 represent investments in a new venture, Steel Products Factory, with 35% of total shares.

**12) Bonds Interest Accrual**

Bonds Interest Accrual as of June 30,1999 amounted to L.E. 14,375,000 represent amounts due to bonds holders accrued after June 30, 1999.

**13) Capital**

The Authorized and Issued and Paid-up Capital amounted to L.E. 250,000,000 divided into 25,000,000 shares with a par value of 10 per Share.

Shareholder's Name and Nationality	Percentage of Participation	Number of Shares	Amount 30-6-99 L.E.	Amount 30-6-99 U.S.\$
The Holding Company for Financial Investments (Lakah Group) S.A.E. ....	97.922%	24,480,400	244,804,000	72,001,177
Mr. Ramy Lakah .....	0.873%	218,300	2,183,000	642,059
Mr. Michel Lakah.....	0.999%	249,800	2,498,000	734,706
Mr. Farouk Abdel Samei .....	0.010%	2,600	26,000	7,647
Mr. Ramy Mostafa.....	0.010%	2,600	26,000	7,647
Mr. Samy Touroungy.....	0.036%	9,000	90,000	26,471
Mr. Farouf Soliman .....	0.000%	50	500	147
Mr. Hassan Ibrahim Deab.....	0.000%	50	500	147
Mr. Rafik Chehata.....	0.008%	2,000	20,000	5,882
Mr. Mohamed Sherif Farag .....	0.000%	100	1,000	294
Mr. Mohamed El sayed El Dabah.....	0.000%	50	500	147
Mr. Lotfy Laham.....	0.000%	50	500	147
Mr. Medhat Sobhy .....	0.062%	15,500	155,000	45,588
Mr. Ramsis Faltas.....	0.078%	19,500	195,000	57,353
	<u>100%</u>	<u>25,000,000</u>	<u>250,000,000</u>	<u>73,529,412</u>

**14) Bonds**

Bonds amount to L.E. 250 million with an interest rate of 11% and to be amortized after 7 Years .

**15) Taxes:**

Arab Steel enjoys a tax holiday of 10 years starting from the first operating year which was 1998.

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## Accountant's Report

### **Cherif Mohamed Hammouda**

Chartered Accountant  
Member of RSM International



To the Board of Directors of  
Holding Company for Financial Investments (Lakah Group), S.A.E.

We have examined the accompanying pro forma consolidated balance sheet of Holding Company for Financial Investments (Lakah Group), S.A.E. and its subsidiaries as at December 31, 1998 and the related income statement for the year then ended (the "Statements") in accordance with International Standards on Auditing applicable to prospective financial information. The pro forma balance sheet and income statement are the responsibility of management.

In our opinion, the Statements have been compiled on the basis stated herein and are presented in accordance with International Accounting Standards and consistent with the accounting policies of the company. The adjustments presented in the Statements have been properly applied to the historical amounts in the compilation of those statements.

Cherif Hammouda

FESSA-FIFA-FEST  
R.A.A. 14260

9 September, 1999

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## Accountant's Report

### **Mostafa Shawki & Co Deloitte & Touche**



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To the Board of Directors of  
the Holding Company for Financial Investments  
(Lakah Group),  
S.A.E.

We have examined the accompanying pro-forma consolidated balance sheet of the Holding Company for Financial Investments (Lakah Group S.A.E.) as at December 31, 1998 and the related income statement for the year then ended in accordance with the International Standards on Auditing applicable to prospective financial information. The pro-forma balance sheet and income statement, the attached notes on which they are based, are the responsibility of the management.

The statements have been prepared for illustrative purposes only and, because of their nature may not give a true picture of the financial position or results of the Holding Company for Financial Investments — (Lakah Group S.A.E.).

In our opinion, the statements have been properly compiled on the basis stated herein and are presented in accordance with International Accounting Standards and in compliance with applicable Egyptian laws and regulations and consistent with the accounting policies of the Holding Company for Financial Investments (Lakah Group, S.A.E.) The adjustments presented in the statements are appropriate for the purposes of the pro forma information, and have been properly applied to the historical amounts in the completion of those statements.

Mostafa Shawki & Co  
Deloitte & Touche

27 September, 1999

**Deloitte Touche  
Tohmatsu**

**HOLDING COMPANY FOR FINANCIAL INVESTMENTS  
(LAKAH GROUP), S.A.E.**

**PRO-FORMA CONSOLIDATED BALANCE SHEET  
as at December 31, 1998**

	Consolidation L.E.	Consolidation U.S.\$
<b>Assets</b>		
<b>Current Assets</b>		
Cash and Cash Equivalent.....	60,292,576	17,733,111
Debtors Short Term Balances (Net).....	495,668,877	145,784,963
Inventory .....	194,697,123	57,263,860
Work in Progress.....	104,770,319	30,814,800
<b>Total Current Assets .....</b>	<b>855,428,895</b>	<b>251,596,734</b>
<b>Long Term Assets</b>		
Accounts Receivables — Long Term.....	167,640,320	49,305,976
Long Term Investments .....	258,628,063	76,067,077
Fixed Assets (Net) .....	354,338,029	104,217,067
Projects under Construction .....	136,506,211	40,148,886
Goodwill.....	252,776,691	74,346,086
Deferred Expenses (Net).....	34,340,047	10,100,014
<b>Total Long Term Assets.....</b>	<b>1,204,229,361</b>	<b>354,185,106</b>
<b>Total Assets.....</b>	<b>2,059,658,256</b>	<b>605,781,840</b>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Due to Banks.....	171,858,623	50,546,654
Current Portion of Long Term Debt.....	36,448,677	10,720,199
Creditors Short Term Balances.....	177,951,638	52,338,717
Provisions .....	22,655,980	6,663,524
<b>Total Current Liabilities.....</b>	<b>408,914,918</b>	<b>120,269,094</b>
<b>Long Term Liabilities</b>		
Long Term Loans.....	197,470,161	58,079,459
Bonds.....	250,000,000	73,529,412
Creditors — Long Term Balances .....	13,459,153	3,958,574
<b>Total Long Term Liabilities.....</b>	<b>460,929,314</b>	<b>135,567,445</b>
Minority Interest in Subsidiary Companies .....	39,934,024	11,745,301
<b>Shareholder's Equity:</b>		
Issued and Paid up Capital.....	1,149,880,000	338,200,000
<b>Total Shareholder's Equity .....</b>	<b>1,149,880,000</b>	<b>338,200,000</b>
<b>Total Liabilities and Shareholders' Equity.....</b>	<b>2,059,658,256</b>	<b>605,781,840</b>

*Auditor's report attached.*

*Note: Solely for the convenience of the reader, the translation of Egyptian pounds into U.S. Dollars has been made at the rate of  
U.S.\$1.00 = L.E. 3.40*

**HOLDING COMPANY FOR FINANCIAL INVESTMENTS  
(LAKAH GROUP), S.A.E.**

**PRO-FORMA CONSOLIDATED INCOME STATEMENT  
for the year ending December 31, 1998**

	Consolidation L.E.	Consolidation U.S.\$
Net Sales.....	649,908,794	191,149,645
Less		
Cost of Sales.....	(439,003,194)	(129,118,586)
Gross Profit.....	<u>210,905,600</u>	<u>62,031,059</u>
Less		
General and Administrative Expenses .....	40,239,567	11,835,167
Financing Expenses.....	57,929,846	17,038,190
Depreciation and Amortization .....	1,495,703	439,913
Foreign Exchange Differences.....	353,010	103,826
Provision for Doubtful Accounts.....	4,997,615	1,469,887
Total Expenses .....	<u>105,015,741</u>	<u>30,886,983</u>
Net profit for the period before minority interest and income taxes.....	<u>105,889,859</u>	<u>31,144,076</u>
Minority Interest.....	(4,219,614)	(1,241,063)
Provision for Income Taxes.....	<u>(15,650,747)</u>	<u>(4,603,161)</u>
Net Profit for the Year .....	<u>86,019,498</u>	<u>25,299,852</u>
Earnings per Share.....	0.75	0.22

*Auditor's report attached.*

*Notc: Solely for the convenience of the reader, the translation of Egyptian pounds into U.S. Dollars has been made at the rate of  
U.S.\$1.00 = L.E.3.40*

**Holding Company for Financial Investments (Lakah Group), S.A.E.****Basis of Preparation**

The statements were prepared on the following basis:

- The audited consolidated financial statements of Holding Company for Financial Investments (Lakah Group), S.A.E. as at and for the year ended December 31, 1998.
- The following transfers of shares of the target companies were made on the terms specified below, and the transfer price was received by the respective transferors, as at January 1, 1998.
- Long Term Investments were reduced by the Total Transfer Price for each company and Cash in Hand and Cash Equivalent was increased by a similar amount.

Name of Target Company	Name of Transferor	Number of Shares Transferred	Transfer Price Et <sup>(1)</sup>
Scandinavian for Investment and Touristic Development — L.t.d....	Lakah Holding	391,950	39,195,000
Delta Sound Co.....	IIC <sup>(2)</sup>	1,000	25,000
House of Art.....	IIC	3,000	75,000
Irena for Art Production.....	IIC	2,500	62,500
First Power.....	IIC	50,000	1,250,000
International Co for Touristic and Real Estate Investment.....	IIC	20,000	1,000,000
Suez Company for Iron Works.....	IIC	4,998	1,094,452

**Notes:**

- (1) Price per share is equal to the paid-in portion of the par value of the relevant shares which was 25 per cent. for all target companies, except for Scandinavian for Investment and Touristic Development — L.t.d. which was fully paid and International Co for Touristic and Real Investment which was paid in as to 50 per cent.
- (2) IIC is Industrial Investments Co., S.A.E., formerly Empain for Real Estate Investment.



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## **Annex A**

### **Summary of Certain Significant Differences Between IAS and U.S. GAAP**

IAS 4, Depreciation Accounting, requires the disclosure, for each major class of depreciable assets, of certain information including "the useful lives or the depreciation rates used, total depreciation allocated for the period and accumulated depreciation," whereas U.S. GAAP requires disclosure of depreciation expense for the period but not by asset class as well as accumulated depreciation either by major classes of depreciable assets or in total, and the depreciation rates used are not required to be presented. The Lakah Holding Company presents depreciation expense on the face of the income statement and discloses historical cost and accumulated depreciation in total in the notes to financial statements.

IAS 7, Statement of Cash Flow, requires financial institutions to classify as operating cash flows those amounts that result from the purchase and sale of dealing or trading securities and loans. This is different from FASB Statement 95, which allows the reporting entity to set policy for such classifications. The Lakah Holding Company applies the requirement of IAS.

IAS 24, Related Party Disclosures, is essentially compatible with U.S. GAAP. However, FASB Statement 57 requires "disclosures of material related party transactions other than compensation arrangements, expense allowances, and other similar items in the ordinary course of business." The Lakah Holding Company discloses, in the notes to financial statements, the basis on which it deals with related parties. This basis is the same as the basis on which the Lakah Holding Company deals with non-related parties.

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## Annex B

### The Arab Republic of Egypt

The information set forth in this section with respect to the Arab Republic of Egypt has been obtained from official or other public sources. Such information has not been independently verified by the Issuer, the Guarantors or the Manager or any of their respective affiliates or advisors.

#### **Geography and Population**

Egypt is situated in the northeastern corner of the African continent. Its total area is approximately one million square kilometers, of which approximately 35,000 square kilometers are settled and cultivated. Egypt's Mediterranean shoreline extends from the border with Libya in the west to the border with the Gaza Strip and Israel in the east. The other country sharing a border with Egypt is Sudan in the south.

Approximately 96 per cent. of Egypt is uninhabited desert, and the country relies heavily on the Nile River to support the water needs of the population, its agriculture and its industry. The climate is hot and dry, with the temperature in Cairo during the mid winter months ranging from 8C to 18C, rising to an average maximum temperature of 36C in July, the hottest month.

The resident population totaled approximately 62.7 million at January 1, 1998, according to official estimates, of which approximately 25 per cent. live in greater Cairo, which is also the main business and tourist center. According to estimates based on 1986 census figures, approximately 94 per cent. of the population is Muslim and six per cent. Coptic Christian. The official language is Arabic, although English and, to a lesser extent, French, are widely spoken, particularly in business centers and tourist areas. A significant informal economic sector exists, whose economic contribution is not captured in official statements.

#### **History**

After the Pharaonic era, which spanned 3,000 years, Egypt was successively conquered by the Assyrians, the Persians and the Greek, Roman and Byzantine empires until, with the birth of Islam in the seventh century A.D., the Arab armies conquered Egypt. The country was then brought under the administrative rule and political sovereignty of the Ottoman Empire, following the Ottoman conquest of 1517.

Although remaining nominally an Ottoman province, Egypt became involved in the Franco-British war in the late 18th century and was invaded by Napoleon in 1798. Three years later, however, the French had surrendered to the British and Ottoman forces. Egypt was formally a British protectorate from 1914 until 1936. Only after the Second World War were British troops evacuated.

The last Egyptian monarch, King Farouk, was exiled in 1952 after a revolution, and Egypt was officially declared a republic on June 18, 1953, with General Mohammed Naguib as its first President. General Naguib was replaced as President by Gamel Abdel-Nasser in 1954.

In the early 1960s, the Nasser Government introduced policies of nationalization with the intention of accelerating the industrialization of Egypt to achieve a more even distribution of wealth. A socialist command economy was introduced with restrictions on private enterprise leading to the flight of capital from the country. The Government's policy was to provide subsidized food, housing, healthcare and education to all and to guarantee employment to all university graduates.

During this period, Egypt became the recognized leader of the Arab world, with Arab unity constituting its predominant foreign policy objective. Egypt under Nasser fought two major wars: the Suez War in 1956 and the war with Israel in 1967, the last of which resulted in the occupation of the Gaza Strip and the Sinai by Israel.

After his death in September 1970, Nasser was succeeded as President by Anwar El Sadat who joined forces with Syria in October 1973 to wage war against Israel to recover lost territories. Following the 1973 war, a solution was brokered by the United States, resulting in the 1978 Camp David Peace Accord. This provided the basis for the 1979 peace treaty between Egypt and Israel, which led to the Israeli withdrawal from the

**Annex B — The Arab Republic of Egypt**

Sinai peninsula. The treaty met with widespread Arab condemnation, resulting in Egypt's expulsion from the Arab League and the termination of diplomatic and economic ties by all Arab states except for Sudan, Oman and Somalia.

In June 1974, a new "Open Door" policy was introduced by the Government and President Sadat, as enshrined in Law 43. This policy aimed to liberalize the economy and encourage both domestic and foreign private investment. In the mid-1970s, revenues from oil exports, Suez Canal tolls, tourism and remittances from expatriate workers increased together with foreign aid and credit facilities to the Government and the banking sector. This allowed the Government to make significant commitments to welfare benefits. In the early 1980s, however, a collapse in oil prices contributed to an economic downturn.

As a result of the deteriorating economic situation, unemployment increased significantly and up to 2.5 million workers emigrated. Domestic unrest increased, and a revival of religious fundamentalism occurred. President Sadat was assassinated in October 1981 by an extremist group, following which his Vice-President, Mohamed Hosni Mubarak, became Egypt's fourth President.

Under Mubarak's presidency, relations with the major Organization for Economic Cooperation and Development countries ("OECD") and African and Asian countries were improved, and the foreign policy goal of reinstating Egypt in the Arab League was achieved in May 1989. Following the 1991 Gulf War, in which Egypt played a major role as an ally of Kuwait, political ties with the United States and the European Union ("EU") were strengthened.

Domestically, the Government has adopted a gradualist program of economic reform focusing on the development of Egypt's infrastructure and the encouragement of private investment. This was accelerated and expanded by the 1991 IMF-sponsored economic reform program. Maintenance of domestic order and stability, in the face of extremism, is a major policy objective.

**Government and Constitutional System**

Egypt is governed according to the Constitution of 1971. The 1971 Constitution provides for a bicameral parliament consisting of the *Majlis el-Shaab* (People's Assembly) of 444 directly elected members, with a further ten members appointed by the President, and the *Majlis el-Shoura* (Advisory Council) of 140 directly elected members, with a further 70 members appointed by the President. The *Majlis el-Shaab* may be dissolved by the President only with the support of the majority of the electorate in a referendum.

The head of state is the President of the Republic who is nominated by a two-thirds majority of the *Majlis el-Shaab* and elected by referendum for a six-year term. The President has, *inter alia*, the power to formulate and supervise the implementation of general state policy, to call elections, subject to legislative approval, and to conduct foreign policy. Elections and referenda in Egypt are by universal direct suffrage. The current President, Mohamed Hosni Mubarak, was re-elected for a third term in October 1999, representing the National Democratic Party ("NDP"), and currently has a decisive majority in the legislature. Parliamentary elections to be held in 2000.

The National Government is composed of a Council of Ministers, currently headed by the Prime Minister, H.E. Dr. Atef Muhammad Ebeid. The President is responsible for the appointment and removal of all ministers. Ministers are obliged to resign if the parliament passes a motion of no confidence. If a motion of no confidence in the Prime Minister is passed against the wishes of the President, then the matter may be put to a referendum. The last major reshuffle of the Council of Ministers took place on October 11, 1999.

The main political party in Egypt is the NDP. Opposition parties include the Labor Party, the Liberal Party, the New Wafd Party, the National Progressive Unionist Party and the Democratic Nasserist Party. At the last legislative election, on November 29, 1995, the NDP won a large majority, comprising 417 parliamentary seats. The next legislative election is due to be held in November 2000.

**Legal System**

The Egyptian legal system has been influenced by, among other things, the French "*Code Civile*," upon which the Egyptian Civil Code of 1948 is largely based. Egypt is governed by a constitution, and Egyptian laws are generally in accordance with principles of Islamic law. Major legislation includes The Commercial Code of 1883, Bank and Credits Law 163 of 1957, as amended, The Code of Civil and Commercial Procedures of

**Annex B — The Arab Republic of Egypt**

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1968, as amended, Companies Law 159 of 1981, as amended by Law 3 of 1998, Investment and Guarantees Law 8 of 1997, Capital Market Law and Arbitration Law 27 of 1994, as amended.

**International Relations**

Egypt is a founding member of the United Nations and the League of Arab States and is a member of all international organizations under the auspices of the United Nations, the International Bank for Reconstruction and Development (World Bank), the IMF, the International Finance Corporation, the African Development Bank and the International Development Association.

Egypt hosts the League of Arab States and other international organizations such as the United Nations Regional Office for Education, Science and Culture in the Arab Countries, the United Nations Commission for Refugees, Food and Agriculture Organization, World Health Organization, the United Nations Fund for Childhood, the United Nations Development Program and the Arab Center for Legal and Judicial Research affiliated with the Arab League.

Egypt has a long tradition of openness to the international community, with close ties to the Arab world, Europe and America.

Egypt is currently in talks with the EU over Egypt's membership in the EU-Mediterranean free-trade zone which is intended to be established by 2010. The talks have been proceeding slowly, principally due to issues relating to the reduction and phasing out of import tariffs, although a 12-year transition period has been agreed. According to the EU, the key elements in the talks are free circulation of industrial goods, rules of origin, agriculture, economic co-operation and competition rules. The agreement, which would cover Egypt's membership of the free-trade zone, also covers principles of democracy, human rights and private enterprise. No assurance can be given that any such agreement will be signed.

Cairo is to host the permanent headquarters of the Bank for Economic Co-operation and Development in the Middle East and North Africa ("MEDB"). The MEDB's objective will be to encourage private sector growth, provide assistance with financing cross-border infrastructure projects and maintenance of regional economic policy dialogue.

**The Economy**

In 1956, President Nasser entered into a conflict with Western powers when he nationalized the Suez Canal. Throughout the 1960s, Egypt under Nasser began to pursue policies of non-alignment and independent development, and implemented a socialist economic model based upon central planning. Many domestic and foreign companies, including banks, were nationalized during this period.

The Egyptian economy grew rapidly from the mid-1970s to the early 1980s due to President Sadat's "Open Door" policy. However, an over-emphasis on import substitution rather than exports, combined with a growing population, rising food subsidy costs, the inefficiencies of a centrally-controlled economy and the collapse of oil prices in the mid-1980s led to the rapid accumulation of external debt, which Egypt found increasingly difficult to service. Inflation and unemployment grew rapidly as a result, while the economic growth rate declined.

By the end of 1986, Egypt's total foreign debt had risen to over U.S.\$46 billion. In May 1987, the Government laid the foundation for the rescheduling of Egypt's foreign debt when it concluded a Special Drawing Rights ("SDR") standby arrangement of U.S.\$250 million with the IMF. This allowed approximately U.S.\$6.5 billion of foreign debt to be rescheduled in a Paris Club accord. In addition, Egypt's support of Kuwait and the Arab and Western allies in the Gulf War resulted in donations of approximately U.S.\$5.5 billion from Arab States in 1991 and write-offs of U.S.\$7 billion in military debt by the United States and a further U.S.\$7 billion of foreign debt by Arab states.

In May 1991, coinciding with the Government's reform program, an SDR standby accord of U.S.\$400 million was signed with the IMF and was followed by a U.S.\$300 million structural adjustment loan from the World Bank. A Paris Club agreement in the same month covered U.S.\$27 billion of debt.

In the ten-year period before 1973, Egypt achieved an average annual price inflation of approximately 3 per cent. During the 1980s, inflation increased rapidly to a peak of 28.5 per cent. in December 1989, as domestic

**Annex B — The Arab Republic of Egypt**

fiscal and monetary conditions loosened. However, as a result of the 1991 economic reform program and the tightening of fixed and monetary policies, consumer price inflation had been reduced to 9.0 per cent. as at June 30, 1994. As a result of sharp increases in food costs and signs of economic recovery, the annualized rate of inflation for 1995, rose to 9.9 per cent. but moderated to 8.3 per cent. in 1996 and 3.8 per cent. in 1998.

The following table sets out certain key Egyptian economic and financial indicators:

<b>Real Economy</b>	<b>1993-94</b>	<b>1994-95</b>	<b>1995-96</b>	<b>1996-97</b>	<b>1997-98</b>
Nominal GDP at Market Price (L.E. billions) .....	175	204	229	256	280
Real GDP at Market Prices (L.E. billions) .....	149	156	164	173	—
Real GDP Growth Rate .....	3.9	4.7	5.0	5.3	5.7
# Real GDP Growth Rate (per capita) .....	1.9	2.5	2.9	3.4	3.4
Unemployment Rate .....	9.8	9.6	9.2	8.8	8.3
Average Annual Inflation .....	9.1	9.4	7.3	6.2	3.8
End of Period yr./yr. Inflation Rate .....	6.4	9.9	8.3	4.8	4.1
<b>Savings — Investments</b>	<b>In per cent. of GDP — Unless Otherwise Stated</b>				
Gross Domestic Savings (L.E. billions) .....	26.5	30.6	29.1	27.5	44.0
Gross Domestic Investments (L.E. billions) .....	29.0	33.1	36.8	45.2	54.6
Gross Domestic Savings .....	15.1	15.0	12.7	10.7	15.7
Gross Domestic Investments .....	16.6	16.2	16.0	17.6	19.5

Sources: Ministry of Planning and CAPMAS.

# Figures revised from Previous Issue.

<b>External Sector</b>	<b>1993/94</b>	<b>1994/95</b>	<b>1995/96</b>	<b>1996/97</b>	<b>1997/98</b>
<b>In per cent. of GDP — Unless Otherwise Stated</b>					
Total Balance (U.S.\$ million) .....	(7,310)	(7,854)	(9,498)	(10,219)	(11,771)
	14.2	13.1	14.1	13.5	14.2
Total Exports (U.S.\$ million) .....	3,337	4,957	4,609	5,345	5,128
	6.5	8.2	6.8	7.1	6.2
Total Imports (U.S.\$ million) .....	(10,647)	(12,811)	(14,107)	(15,565)	(16,899)
	20.6	21.3	20.9	20.6	20.5
Current Account Balance .....	0.8	0.6	(0.3)	0.2	(3.4)
Overall BOP Balance .....	4.1	1.3	0.8	2.5	0.2
<b>External Debt Indicators</b>	<b>End Period in per cent. of GDP — Unless Otherwise Stated</b>				
Total External Debt (U.S.\$ million) .....	30,894	32,965	31,043	28,774	28,076
Total External Debt (of which): .....	59.9	54.8	45.9	38.1	34.0
Short Term Debt .....	2.1	2.1	1.9	2.0	2.1
Foreign Debt Service/GDP .....	4.2	4.0	3.3	2.0	1.8
Debt Service Ratio <sup>(1)</sup> .....	13.6	12.7	12.0	7.2	7.2
Net International Reserves as Number of Months of					
Imports .....	18.8	16.4	15.7	15.7	14.3
NIR to Short Term External Liabilities .....	2.7	11.2	11.4	10.1	11.7
<b>Capital Market Indicators</b>	<b>End December Unless Otherwise Stated</b>				
Stock Market Capitalization as per cent. of GDP .....	7.2	12.2	18.8	25.2	30.5
Price/Earnings Ratio <sup>(2)</sup> .....	—	—	11.3	11.5	8.7
Annual Volatility (standard deviation) <sup>(3)</sup> .....	5.6	2.2	5.9	3.1	3.6
Number of Listed Companies .....	700	746	646	650	861
Volume of Trading (millions of Securities) .....	13.7	29.5	43.7	170.5	286.7
Value of Trading (£E millions) .....	275	1,214	2,294	8,769	20,282

Sources: Central Bank of Egypt and Capital Market Authority.

(1) Stands for the ratio of external debt service to current account receipts. Current account receipts include proceeds from export of goods and services and total transfer.

(2) The ratios are calculated according to the most actively traded stocks which represent 60 to 75 per cent. of the total capitalization of all shares listed in the stock exchange, following the IFCG indexes methodology.

(3) Market volatility represents the standard deviation of monthly returns during the year.



**Annex B — The Arab Republic of Egypt**

A new IMF Extended Fund Facility was approved in September 1993. However, the IMF delayed its technical review of this facility, as it believed that the Government should devalue the Egyptian pound in order to boost exports and allow lower interest rates.

This devaluation issue was resolved with the IMF in 1996. On October 11, 1996, the Paris Club wrote off U.S.\$4.2 billion of Egypt's debts pursuant to the IMF Egyptian Agreement.

Fitch IBCA assigned a long-term rating of BBB- to Egypt on August 19, 1997 following Standard and Poor's decision to award Egypt with an investment grade BBB- rating in January 15, 1997, which was one notch above Moody's rating of Ba1 announced in November 14, 1997.

The official rate of unemployment as of June 30, 1998 was 8.3 per cent. The World Bank estimates that over the next ten years there will be yearly increases of more than one million in the working-age population in Egypt and the labor force (assuming a constant participation rate) will expand at 2.8 per cent. annually, with about 560,000 people entering the job market, more than 25 per cent. of whom will be in the 15-24 age group. Thus, it is essential for Egypt to create jobs and income opportunities to meet the rising expectations of the younger generation.

**Economic Policies**

In 1991, the Government commenced an economic reform program the objectives of which are macroeconomic stability, financial sector reform and the reduction of price distortions and obstacles to foreign trade. Key elements of the program have been the introduction of a privatization program, the gradual replacement of central planning by market economics, the gradual reduction of government spending on subsidies, the deregulation of interest rates and foreign exchange, the introduction of the Capital Market Law and trade liberalization.

This program, which has received support from the IMF and the World Bank, has resulted in an improvement in Egypt's external balance of payments. After registering deficits on both trade and current accounts through the 1980s, the current account has improved since 1990, owing primarily to high receipts from invisibles, a reduction in debt service costs, and large net transfers. According to the IMF, foreign currency reserves increased from U.S.\$6 billion in June 1991 to U.S.\$20.3 billion in 1997, before reducing slightly to U.S.\$19.8 billion in June 1998.

IMF figures show that official GDP growth has grown over the last three years at a average rate of 5.2 per cent. and that the budget deficit as a percentage of GDP has declined from 4.2 per cent. in 1993 to 1.3 per cent. in 1996 and to 1.0 per cent. in 1998. The national budget for the fiscal year ending June 30, 1997 reflects the continued tight fiscal policy. Expenditure and revenues were budgeted to rise virtually in line with inflation. The deficit for 1998 was 1.0 per cent. GDP, financed mainly from domestic sources.



**Annex B — The Arab Republic of Egypt****Gross Domestic Product**

The following table sets forth Egypt's GDP at factor cost<sup>(1)</sup> in current prices by sector and by origin for each of the years indicated:

(EE Million)	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99 Estimated
Total GDP .....	162,967	191,010	214,185	239,500	262,220	283,001
Total Commodity Sector .....	80,880	93,750	104,684	118,532	130,509	138,585
Agriculture .....	27,500	32,050	36,968	42,325	45,878	49,360
Industry and Mining .....	28,030	33,330	37,936	43,383	48,798	55,225
Petroleum and Products .....	13,399	15,120	14,760	15,854	16,803	12,775
Electricity .....	3,451	3,750	3,980	4,220	4,470	4,565
Construction .....	8,500	9,500	11,040	12,750	14,560	16,660
Total Production Services .....	52,710	62,250	69,850	77,552	84,336	92,919
Transportation <sup>(2)</sup> .....	17,560	19,700	21,500	22,695	24,507	26,300
Trade, Finance and Insurance .....	32,870	39,700	45,109	51,027	56,665	63,077
Hotels and Restaurants .....	2,280	2,850	3,241	3,830	3,164	3,542
Total Social Services .....	29,377	35,010	39,651	43,416	47,375	51,497
Housing and Real Estate .....	2,850	3,450	3,816	4,375	4,860	5,412
Utilities .....	570	690	843	915	1,038	1,179
Social Insurance .....	107	120	140	165	185	214
Government Services .....	12,750	15,100	17,220	18,900	20,662	22,352
Social and Personal Services .....	13,100	15,650	17,632	19,061	20,630	22,340

Source: Ministry of Planning

(1) Does not include net indirect taxes.

(2) Includes Suez Canal.

**The Exchange Rate System**

The rate of exchange between the Egyptian pound and the U.S. Dollar has remained stable in recent years, although there have been recent instances of reduced availability of U.S. Dollars on the Egyptian market. The CBE does not usually intervene directly in the foreign exchange market, but makes use of the four public sector banks to influence the exchange rate.

In 1969, the Government introduced a multiple exchange rate to encourage revenues from tourism, expatriate workers and other sources and to bolster Egypt's foreign exchange position. During the 1980s various mechanisms to fix the multiple exchange rates were established through setting different pools and determining their resources and permitted utilizations. In all these mechanisms, the primary concern was to fix the exchange rate of the U.S. Dollar to the Egyptian pound. The exchange rates of other currencies were determined on the basis of such exchange rate.

In 1987, an amendment was introduced to the foreign exchange regulations establishing the free market for foreign exchange. Pursuant to this amendment, the banks in Egypt that were authorized to deal in both Egyptian pounds and foreign currencies were allowed to buy and sell foreign currencies for their account and at their own responsibility within the scope of the free market for foreign currencies. During this period, the daily buying and selling rates of foreign currencies were declared by a special committee on the basis of supply and demand indicators. The committee announced the buying and selling rates of the U.S. Dollar in Egyptian pounds, and also determined the exchange rates of other currencies on the basis of the closing rates for U.S. Dollars in the London market for the same day. Gradually, the resource and permitted utilizations of the free foreign exchange market grew at the cost of the other governmental pools and exchange rates.

This exchange rate system was replaced in early 1991 by a simpler, market-led, two-tier structure, with one rate for private transactions by banks and non-bank dealers and another rate for government transactions, linked to the free market rates. The margin between the two rates gradually disappeared, and in October 1991 a unified free market rate was applied. This also resulted in the abolition of the CBE pool into which export revenues from oil, cotton and rice had previously been paid in order to contribute towards foreign debt servicing and subsidized food imports.

**Annex B — The Arab Republic of Egypt**

In August 1994, the current Foreign Exchange Law 38 of 1994 (the "Foreign Exchange Law") was passed to complete the previous steps to liberalize the foreign exchange market. The CBE, registered banks and other authorized entities are now free to determine the applicable exchange rate within the framework of a free foreign exchange market. The Foreign Exchange Law and its executive regulations permit the free transfer of foreign currency inside and outside Egypt provided such transfer is effected through registered banks.

The Egyptian pound is not officially convertible outside Egypt and is not subject to transfer outside Egypt through banks. Therefore, the Foreign Exchange Law provides that the entry and export of Egyptian currency, notes or coins, will be in accordance with the terms and conditions to be set forth by the competent Government minister.

Throughout the development of the exchange rate systems in Egypt and at present, the exchange rate of the Egyptian pound to the U.S. Dollar has always provided the basis for determining the exchange rates between the Egyptian pound and other foreign currencies.

The following table sets forth, for the periods indicated, certain information concerning the exchange rate (as reported by Datastream) between the U.S. Dollar and the Egyptian pound.

Year Ended December 31,	High	Low	Average	Period End
1992.....	3.4850	3.2326	3.3275	3.3282
1993.....	3.3984	3.2546	3.3449	3.3711
1994.....	3.4367	3.3165	3.3787	3.4088
1995.....	3.4252	3.3930	3.4049	3.4034
1996.....	3.4200	3.3920	3.3999	3.3929
1997.....	3.4123	3.3897	3.3965	3.4024
1998.....	3.4287	3.3850	3.4077	3.4100
1999 <sup>(1)</sup> .....	3.4425	3.4055	3.4132	3.4164

Notes:

(1) Through November, 1999.

**Monetary and Financial System**

The following table sets forth information regarding the developments in monetary aggregates for the periods indicated:

End of Period Stocks	1993/94	1994/95	1995/96	1996/97	1997/98
Net Foreign Assets, of which:.....	45,899	48,017	48,164	56,110	45,138
Net International Reserves.....	86,183	91,970	90,737	94,031	81,616
of which: Central Bank Reserves.....	56,493	59,300	61,478	67,751	67,023
Net Domestic Assets, of which:.....	91,546	104,560	120,368	137,792	165,349
Net Claims on Government Sector.....	69,521	66,781	71,274	75,760	76,293
Claims on Private Sector.....	49,918	66,434	84,503	107,746	135,232
National Currency.....	33,145	48,202	61,815	77,428	98,908
Foreign Currency.....	16,773	18,232	22,688	30,318	36,324
Total Liquidity.....	137,445	152,577	168,532	193,902	210,487
Money.....	28,264	31,634	35,056	39,052	43,590
Quasi Money.....	109,181	120,943	133,476	154,850	166,897
<b>Memorandum, Items:</b>					
Dollarization (% of total liquidity).....	23.4	25.1	22.9	19.4	17.9
Exchange Rate (end of period).....	3.390	3.395	3.393	3.389	3.395

Source: Central Bank of Egypt.

**Annex B — The Arab Republic of Egypt****International Reserves**

The following table sets out the monthly reserve money and counterpart assets for the past year indicated:

End — Period Stock	Sept-98	Oct-98	Nov-98	Dec-98	Jan-99	Feb-99	Mar-99	Apr-99	May-99
Reserve Money .....	58,553	57,275	57,194	59,194	60,735	59,627	62,040	60,069	60,102
Net Foreign Assets .....	28,380	26,764	27,531	25,797	25,775	26,111	25,112	24,470	23,301
Domestic Assets .....	30,173	30,511	30,010	33,397	34,960	33,516	36,928	35,599	36,801
Net International Reserves (U.S. million) .....	20,183	20,049	20,004	19,801	19,503	19,319	18,920	18,690	18,226

Source: Central Bank of Egypt.

**Foreign Trade**

Egypt's total exports recorded a constant increase and amounted to 3.2 billion for the financial year 1998. Fuel exports constituted the single largest category of exports.

The country's imports rose over the period from 1995 to 1998, from U.S.\$9.6 billion for the financial year 1995 to U.S.\$16.5 billion for the financial year 1998. According to CBE statistics, food imports and equipment and machinery constituted the largest categories of imports. Egypt's main export destinations are the EU, the United States and India. The main sources of imports are the EU, the United States and Japan.

The following tables show Egypt's principal trading partners for exports and for imports for the years indicated:

U.S.\$ (million)	1994	1995	1996	1997	1998
Trade Balance .....	(6,058)	(8,236)	(9,414)	(9,302)	(13,301)
Total Exports .....	3,517	3,524	3,618	3,931	3,201
		(0.0)	(3.0)	(8.6)	(18.6)
Fuel Exports .....	1,294	1,217	1,627	1,598	822
Crude Oil .....	792	703	817	670	161
Other Products .....	501	514	810	929	661
Non-oil Exports .....	2,224	2,307	1,991	2,333	2,379
		(2.2)	(15.0)	(15.0)	(1.8)
Raw Cotton .....	233	152	92	111	158
Raw Materials .....	162	247	219	191	184
Finished goods .....	1,206	1,172	1,034	1,228	1,264
Free Zones .....	49	74	80	74	90
Total Imports .....	9,575	11,760	13,032	13,233	16,502
		(23.0)	(11.0)	(2.0)	(24.7)
Fuel Imports .....	3	9	25	118	771
Non-oil Imports .....	9,572	11,751	13,007	13,115	15,732
		(23.0)	(11.0)	(1.0)	(19.9)
Raw Materials .....	1,359	1,657	2,245	1,707	1,723
		(22.0)	(36.0)	-(24.0)	(0.9)
Intermediate Goods .....	3,776	5,174	5,461	5,636	6,194
		(37.0)	(5.0)	(3.0)	(9.9)
Investment Goods .....	2,437	2,633	2,984	3,339	3,997
		(8.0)	(13.0)	(12.0)	(19.7)
Consumption Goods .....	1,894	2,188	2,193	2,337	2,744
		(16.0)	(1.0)	(7.0)	(17.4)
Durable Goods .....	439	513	507	518	671
Non-durable Goods .....	1,455	1,675	1,686	1,820	2,073
Free Zones .....	—	—	—	—	1,082
Exchange Rate .....	3.390	3.392	3.393	3.392	3.395

Source: CAPMAS, Exchange Rate C.B.E

( ) per cent. change over previous year.

Note: Data in this table are based on Customs Authorities' computation of goods movements. It may differ from data compiled in the balance of payments which are based on financial records of the banking system.

**Annex B -- The Arab Republic of Egypt****Balance of Payments**

The following tables set out Egypt's balance of payments capital and current accounts for the years indicated. Certain data set forth below may differ in some respects from corresponding data included elsewhere in this document as a result of the use of different methods of calculation:

**Balance of Payments (Current Account)**

U.S.\$ (million)	1993/94	1994/95	1995/96	1996/97	1997/98
Trade Balance.....	(7,310)	(7,854)	(9,498)	(10,219)	(11,771)
Export.....	3,337	4,957	4,609	5,345	5,128
Petroleum.....	1,772	2,176	2,226	2,578	1,728
Other Export.....	1,565	2,781	2,383	2,768	3,400
Import.....	(10,647)	(12,811)	(14,107)	(15,565)	(16,899)
Services (net).....	3,674	4,042	5,791	6,193	4,595
Receipts.....	8,677	9,556	10,636	11,241	10,444
Suez Canal.....	1,990	2,058	1,885	1,849	1,777
Travel.....	1,779	2,299	3,009	3,646	2,941
Investment Income.....	1,197	1,626	1,829	2,052	2,080
Other.....	3,711	3,573	3,913	3,693	3,646
Payments, of which.....	5,004	5,514	4,844	5,048	5,849
Interest.....	1,319	1,485	1,290	1,085	941
Private Transfers (net).....	3,232	3,279	2,798	3,256	3,519
Current Account (excl. official Transfers).....	(404)	(533)	(909)	(771)	(3,658)
Official Transfers (net).....	814	919	724	890	885
Current Account Balance.....	410	386	(185)	119	(2,772)

Source: Central Bank of Egypt.

Note: Trade data in this table are based on banking sector compilation based on cash transactions. It may differ from data compiled by CAPMAS which are based on Custom Authorities' records of movement of goods.

**Balance of Payments (Capital Account)**

U.S.\$ (million)	1993/94	1994/95	1995/96	1996/97	1997/98
Capital & Financial Account <sup>(1)</sup> .....	2,511	430	1,017	2,041	3,765
Direct Investment Abroad.....	(36)	(48)	(15)	(47)	(100)
Direct Investment In Egypt.....	1,321	783	627	770	1,108
Portfolio Investment (net).....	3	4	258	1,463	(248)
Other Investment (net).....	1,224	(310)	148	(145)	3,006
Net Borrowing.....	228	1,084	89	225	920
M&L Term Loans (net).....	365	303	(75)	(113)	(54)
Drawings.....	645	729	472	416	525
Repayments.....	(280)	(427)	(547)	(528)	(579)
MT Suppliers Credit (net).....	(136)	(171)	(283)	(251)	322
Drawings.....	214	163	56	77	547
Repayments.....	(350)	(334)	(339)	(328)	(225)
ST Suppliers Credit (net).....	—	953	447	588	652
Other Assets.....	1,399	(1,406)	237	(1,590)	317
Other Liabilities.....	(404)	13	(177)	1,221	1,769
Net Errors & Omissions.....	(815)	(61)	(261)	(247)	(1,128)
Overall Balance.....	2,106	754	571	1,912	(135)
Change in CBE's Reserve Assets (increase = *).....	(2,106)	(754)	(571)	(1,912)	135

Source: Central Bank of Egypt.

(1) Includes exceptional financing.

**Annex B — The Arab Republic of Egypt****Government Finances**

The following table sets forth the revenues and expenditures of the Government for the years indicated:

U.S.\$ (million)	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99 Budget
Total Revenues .....	52,567	55,719	60,893	64,498	67,963	69,919
Tax revenues .....	31,373	34,279	38,249	40,518	43,962	45,700
Transferred profits .....	9,070	10,542	11,133	11,423	10,780	9,812
Other non-tax revenues .....	5,941	5,068	5,104	5,238	5,293	5,446
Non-Central Government revenues <sup>(1)</sup> .....	6,183	5,830	6,407	7,319	7,928	8,961
Total Expenditure of which: .....	56,264	58,256	63,889	66,826	70,783	73,919
Current expenditure .....	45,912	46,933	51,196	53,030	55,289	58,002
of which: Domestic interest payments .....	11,816	11,177	12,231	12,337	12,219	12,772
Foreign interest payment .....	4,682	3,613	3,796	3,114	2,724	2,624
Investment expenditure .....	10,659	11,299	12,581	14,070	15,635	16,110
Overall Balance .....	(3,697)	(2,537)	(2,996)	(2,328)	(2,820)	(4,000)
Overall Balance as % of GDP .....	(2.1)	(1.3)	(1.3)	(0.9)	(1.0)	(1.3)

Source: Ministry of Finance.

The following table sets out Egypt's total external debt by type of borrowing and maturity for the years indicated.

U.S.\$ (million)	1993/94	1994/95	1995/96	1996/97	1997/98	Jun-99
Total External Debt .....	30,895	32,965	31,043	28,774	28,076	28,224
Medium and Long Term Public and Publicly Guaranteed Debt .....	29,757	31,668	29,738	27,226	26,226	26,010
Bilateral loans .....	24,135	25,926	24,333	22,263	21,102	—
Loans from International Organizations .....	3,537	3,779	3,826	3,832	4,302	4,326
Credit to Suppliers and Buyers .....	2,085	1,963	1,579	1,131	822	—
Short Term Debt .....	1,104	1,271	1,295	1,541	1,719	1,830
Private Sector Debt .....	34	26	10	7	131	384
Memorandum Item						
Total External Debt as % of GDP .....	59.9	54.8	45.9	38.1	34.0	31.5

Source: Central Bank of Egypt.

**Foreign Investment**

The Egyptian authorities have been making efforts to encourage foreign direct investment. Foreign direct investments increased from U.S.\$769.7 million in fiscal 1997 to U.S.\$1.1 billion in fiscal 1998. Foreign portfolio investment has been low, limited by the level of liquidity of the stock market in Egypt although foreign portfolio investment increased from U.S.\$724 million in 1996, with the launch of several mutual funds established to invest in the Egyptian stock market and to take advantage of the privatization program, to U.S.\$1.6 billion by October 1997. However, due to worldwide market turbulence, in 1998 foreign portfolio investment declined by U.S.\$248 million.

**Foreign Assistance**

The majority of Egypt's foreign aid comes from the United States through the U.S. AID and GSM102 programs. The United States is Egypt's largest individual donor, having provided in recent years in excess of U.S.\$2 billion per annum of which approximately U.S.\$1.3 billion per annum was by way of military aid. Other countries supply lesser amounts. Immediately after the Gulf War in 1991, Egypt was the largest recipient of foreign aid in the Middle East with a total of just under U.S.\$10 billion, benefiting from its support for the allies. Total foreign aid has since fallen because of reduced direct aid from the United States and rising budgetary constraints reducing the ability of the Gulf Arab countries to provide aid to Egypt.

**The Egyptian Securities Market And The Cairo And Alexandria Stock Exchanges**

The CMA was set up by the Government in 1979 pursuant to Presidential Decree No. 520 of 1979 to promote investment in the Egyptian securities market. The CMA is responsible for regulation of the securities



**Annex B — The Arab Republic of Egypt**

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market in Egypt, the issue of licenses for financial intermediary businesses, including brokerage, venture capital, mutual fund management and portfolio management, the monitoring of continuing obligations of listed companies, the maintenance of the central securities depository and investor protection. The President of CASE and the Chairman of the CMA have the right under the Capital Market Law to stop certain offers and bids for shares of listed companies which are considered to be manipulative, distorting or in violation of market rules. The development of the securities market in Egypt since 1992 has encouraged certain Egyptian banks and financial institutions to begin to provide such services as securities underwriting, brokerage and mutual funds.

The most important factor in the growth of the Egyptian securities market since 1992 has been the Government's privatization program. In June 1991, the Government enacted Law 203, which provided for the restructuring of 314 public sector enterprises, then accounting for approximately 70 per cent. of the Egyptian public sector. During 1993, these enterprises were reorganized under 27 (now 16) holding companies, which have authority to dispose of or liquidate their assets, in some cases after restructuring to make them more attractive to investors.

The pace of privatization in the early years was slow, but the process has been revitalized under the prior administration of Prime Minister El-Ganzouri and the current administration of Prime Minister Dr. Atef Muhammad Ebeid. As at December 31 1998, the Public Enterprise Office reported that 91 companies had been either majority privatized or liquidated for assets. Other privatization transactions in addition to those reported by the Public Enterprise Office have also occurred or are underway in various sectors of the Egyptian economy.

The Capital Market Law permitted the introduction of mutual funds to the Egyptian market with 19 mutual funds launched as at December 31, 1998. Together, these 19 mutual funds represented a total of approximately E£3.6 billion at nominal value under management as of that date.

The Egyptian Companies Law permits companies to issue bonds and other tradable securities. The only corporate bond issue listed on CASE before the enactment of the Capital Market Law was the issue of the Crédit Foncier Egyptian bonds, issued in 1951. Since the promulgation of the Capital Market Law, there have been 19 corporate bond issues.

The market capitalization of CASE (which is measured by the total number of issued shares of all listed companies, whether or not actually traded) increased by 153 per cent. in 1995 in spite of stagnating prices, and market index levels. At December 31, 1996 CASE's market capitalization was approximately E£48 billion (U.S.\$14 billion). At December 31, 1998, CASE market capitalization was approximately E£83 billion (U.S.\$24 billion).

CASE suffers from a relative lack of liquidity, as most of the approximately 861 listed companies are closed subscription companies and only approximately 100 trade on a regular basis. In March 1996, after a series of warnings, the CMA delisted 48 companies for failing to meet its requirements and in 1997, 18 companies were delisted. From January 1, 1998 to December 31, 1998, average daily trading volume on CASE amounted to approximately E£76.6 million (U.S.\$22.5 million), or approximately 1.6 million shares daily.

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